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SUBJECT: SUBJECT: KAZAKHSTAN - ASIA SOCIETY CONFERENCE
FOCUSES ON ECONOMIC OPPORTUNITIES AND OBSTACLES

Summary

¶1. (U) The Asia Society's Second Kazakhstan International Business Conference was held June 12-14 in Astana. The event brought together businessmen from Kazakhstan and abroad, government officials, diplomats, and academics to discuss obstacles to and opportunities for economic development in Kazakhstan. Several themes resonated throughout the conference, including the importance of Kazakhstan's creating a friendlier investment climate, diversifying its economy, and turning itself into an engine for regional economic integration. End Summary.

Prime Masimov Stresses Focus Areas

¶2. (U) In a keynote address which followed brief opening remarks by Asia Society President Richard Holbrooke, Kazakhstani Prime Minister Karim Masimov stressed that Kazakhstan is a reliable partner for foreign direct investment and seeks investors willing to explore the wealth of opportunities that Kazakhstan offers. Kazakhstan is undertaking measures that will make it one of the 50 most competitive countries in the world within five years. According to Masimov, the government's six focus areas on the economic front are WTO accession, judicial transparency, economic diversification, sustainable growth through training and professional development, the fight against corruption, and promoting regional economic cooperation. Masimov noted that the U.S. and Kazakhstan were about to launch an ambitious Public-Private Economic Partnership Initiative (PPEPI) which would bring together the governments and private sectors of the two countries to develop proposals for progress in some of these very areas. (Note: The PPEPI was subsequently inaugurated in Astana on June 24. End Note.)

Energy

¶3. (SBU) In his address opening a panel on energy issues, Daniel Yergin, Chairman of Cambridge Energy Research Associates, spoke about the current "demand shock" for oil. Yergin noted that it takes years to bring new crude production on line and that the costs to do so have skyrocketed in recent years, significantly outpacing the overall inflation rate. This augurs for continued high prices for crude. Deputy Minister of Energy and Mineral Resources Akchulakov said that the Kazakhstani government is interested in investing in downstream capacities, such as petrochemicals. (Comment: In prior post reporting, we have noted that petrochemicals do not appear to have much economic promise in Kazakhstan. End Comment.) Akchulakov and several other panelists argued that Kazakhstan has huge potential in renewable sources of energy. Diversifying the

energy economy into non-hydrocarbon sectors is crucial for Kazakhstan's sustainable development, they stressed.

Financial Sector Issues

¶4. (U) In remarks opening a panel on financial sector issues, Finance Minister Bolat Zhamishev said Kazakhstan has been proactive in fighting the effects of the international credit crunch, and thus Kazakhstani financial institutions remain attractive to international capital markets. It remains a top priority to transform Almaty into a regional financial hub, create an effective stock exchange to attract liquidity, and create a class of private institutional investors, he argued. Adel Kambar, CEO of Renaissance Capital, emphasized that an active domestic pool of investors is a prerequisite to the entry of international investors. Jonathan Schiffer from Moody's Investors Service noted that the Kashagan field will begin production in several years; thus it is crucial that Kazakhstan's non-extractive sectors raise their productivity in order to deal with anticipated currency appreciation and other negative effects from the economic windfall of the energy sector.

Eni in Kazakhstan

¶5. (U) Stefano Cao, CEO of the Exploration of Production Division of Italian energy giant Eni, argued in his lunchtime address that as a dynamic player in the upstream energy

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sector, Kazakhstan makes an immense contribution to the global energy balance. Discussing his company's activities in Kazakhstan, he said that Eni undertakes significant efforts to train and retain local staff, which promotes sustainable economic development. Eni has undertaken several social infrastructure projects to improve health and education for citizens. It also brings benefits to the local economy through technology transfer and increased salaries and tax revenues. The concept that underlies Eni's activities in Kazakhstan is a commitment to a common future and the economic growth of the country, Cao contended.

Economic Diversification, Entrepreneurship

¶6. (U) During a session on economic diversification, Minister of Industry and Trade Vladimir Shkolnik argued Kazakhstan's high-quality human capital makes it well-suited to diversifying into high-technology sectors and competing at a world-class level. The government provides support to specialized companies and has created special economic zones to efficiently transfer new technologies in the non-resource sector, he argued. Several panelists highlighted Kazakhstan's auspicious geographic location between Europe and Asia as facilitating economic diversification into the transshipment sector. David Short of FedEx explained that his company had chosen Almaty as its regional hub in part because of the quality of Kazakhstani human capital and infrastructure and the welcoming attitude of the government.

¶7. (U) During a session on entrepreneurship, Raimbek Batalov, chairman of the Forum of Entrepreneurs of Kazakhstan, said many administrative barriers curb the development of domestic businesses. He stressed that the government needs to be more proactive in reforming the tax code. (Note: The government is, in fact, moving forward this year on a major tax reform effort. End Note.) Batalov contended that private companies have no chance when competing with state enterprises, and said the government needs to be more transparent in the area of public-private partnerships (i.e., government concessions on public works projects).

International Economic Cooperation and Relations

¶8. (U) In his remarks opening a session on international economic cooperation and relations, Bolat Nurgaliyev, Secretary-General of the Shanghai Cooperation Organization (SCO), outlined his organization's priorities, which, he said, include peace, stability, and prosperity among its member states. Openness and transparency is enshrined in the Organization's charter, he argued. Richard Holbrooke expressed the view that some U.S. government officials may be overly alarmed at the SCO's intentions. Martha Olcott of the Carnegie Endowment for International Peace noted that significant challenges remain to maximize Kazakhstan's attractiveness to investors. She argued that the government needs to fight corruption, enhance property rights, and undertake tax and judicial reforms. Zeyno Baran of the Hudson Institute pointed to the soundness of Kazakhstan's multi-vector diplomacy, with energy cooperation as the primary engine of international partnership. Ambassador Ordway highlighted the depth of the U.S.-Kazakhstani strategic partnership. Kazakhstan is a close partner in the areas of non-proliferation and counter-terrorism and the U.S. is the single largest source of foreign investment in Kazakhstan. The large number of Kazakhstani students studying in the U.S. -- through USG-funded exchange programs and Kazakhstan's Bolashak scholar program, as well as independently -- is a key factor enhancing bilateral ties.

Regional Trade and Investment

¶9. (U) In his address opening a session on regional trade and investment, Sherzod Faizev, Deputy Secretary General of the Eurasian Economic Community (EurAsEC), noted that trade among EurAsEC member countries has tripled since its founding. Transit links, energy cooperation, and positive trends in investment inflows are raising the international attractiveness of EurAsEC. Kazakhstan Temir Zholy (Railroads) representative Yermek Kizatov explained that Kazakhstan is restructuring its railway sector in order to become a more efficient component of the regional transshipment infrastructure. Konstatin Nazarov of General Electric emphasized that Central Asia is still at an early point in attracting foreign investors. The region needs to

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focus on improving the investment climate and protecting the interests of foreign investors. Haoliang Xu, UNDP Resident Representative in Kazakhstan, highlighted the progress Kazakhstan has made on key human development indicators, while the rest of Central Asia has declined or stagnated. Kazakhstan can use its financial strength to increase its role as a donor and regional motor for integration and development, he argued.

Kazakhstan's Competitive Advantage

¶10. (U) In closing remarks to the conference, Vice Minister for Industry and Trade Zhanar Aitzhanova stressed the importance of harmonizing Kazakhstan's regulations with international standards and promoting foreign direct investment in the non-energy sector. The latter represents a particular challenge, since Kazakhstan competes with neighboring economies that have natural competitive advantages in these other sectors, she argued. Kazakhstan's competitive advantage will therefore be its clear rules and regulations, transparency, and predictability. Aitzhanova concluded with a call on the business community to be active in sharing expertise and participating in the development of human capital in Kazakhstan, a key prerequisite for the

country's economic prosperity.

Comment

¶11. (SBU) The conference featured an impressive list of speakers and addressed an array of salient topics. The panel discussions were, in fact, more engaging than those at the Asia Society's First International Business Conference, held in Almaty in 2005. That said, attendance was disappointing, especially on the second day (which was a Saturday). Richard Holbrooke told the Ambassador that the Asia Society lost at least 50 participants simply by holding the event in Astana, rather than Almaty. In addition, this time around, President Nazarbayev dropped out of the event (though Holbrooke still managed a private meeting with him) and the political opposition did not participate at all. In sum, this second Asia Society business conference managed to get the key issues on the table, but did not have the same impressive impact as the first one did in 2005. End Comment.

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